Kgatelopele Local Municipality
(Registration number NC086)
Annual Financial Statements
for the year ended 30 Jun 2020

General Information

Legal form of entity	Municipality
The following is included in the scope of operation	Provision of basic services
Mayoral committee	
Executive Mayor	R Losper
Councillors	SG Edwards
	RC Lessing
	NI Williams
	MG Ngesi
	N Prince
	EM Sulliman
Grading of local authority	Low Capacity
Accounting Officer	M January
Chief Finance Officer (CFO)	O.N Louw
Registered office	222 Barker Street Danielskuil 8405
Business address	222 Barker Street Danielskuil 8405
Bankers	First National Bank
Auditors	Auditor General South Africa
Attorneys	Van De Wall Inc.

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

GRAP	Generally Recognised Accounting Practice
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
EPWP	Expanded Public Works Programme
INEP	Intergrated Electification Programme
MWIG	Municipal Water Infrastructure Grant

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board. As per Government Gazette no. 43582 dates 5 August 2020, National Treasury has granted municipalities a two-month extinction regarding the submission of the annual financial statements. The municipality has taken advantage of this exemption.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 Jun 2021 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the municipality for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The accounting officer would like to bring to your attention the following material matters to your attention:

The accounting officer certify that the salaries, allowances and benefits of councillors as disclosed in note .xx... to these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act, Act 20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with the Act.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on page 6, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed on its behalf by:

Accounting Officer
Mr. M January

Audit Committee Report

We are pleased to present our report for the financial year ended 30 Jun 2020.

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166 of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management was not adequate and effective. In line with the MFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management report of the Auditor-General South Africa, it was noted that matters were reported that indicate material deficiencies in the system of internal control. Accordingly, we can report that the system of internal control over financial reporting for the period under review was not efficient and effective.

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

The audit committee is not satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Accounting Officer of the municipality during the year under review.

Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the audited annual financial statements and the annual report, with the Auditor-General and the Accounting Officer;
- reviewed the entities compliance with legal and regulatory provisions;

The audit committee is not satisfied with draft annual financial statement submitted for review as there were significant corrections that still need to be processed by management. The set of financial statement was incomplete and inadequate time was available to effect recommendations from the committee.

The committee is of the opinion that the draft annual financial statements and the draft annual performance report should be submitted as at 31 August 2019 to Auditor General.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to discuss and evaluate the Audit Strategy. The committee can confirm that there are no unresolved issues.

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Chairperson of the Audit Committee

Date: ______________________

Report of the Auditor General

To the Provincial Legislature of Kgatelopele Local Municipality

Auditor General South Africa

31 Aug 2020

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 Jun 2020.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services and maintaining the best interest of the local community, and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net surplus of the municipality was R 9,381,122 (2019: deficit R 11,469,660).

2. Going concern

We draw attention to the fact that at 30 Jun 2020, the municipality had an accumulated surplus (deficit) of R 367,915,012 and that the municipality's total liabilities exceed its assets by R 367,915,012.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The entity still has the power to levy rates and taxes and it will continue to receive funding from government as evident from the equitable share allocation in terms of the Division of Revenue Act, (Act 2 of 2018).

3. Subsequent events

Within the municipal space, the effects of COVID-19 is likely to be a current period event which will require ongoing evaluation to determine the extent to which developments after the reporting date, should be recognised in the current reporting period. Council has approved our revised budget for 2020/21 which includes various concessions in order to further mitigate the economic impact of the virus on our communities..

4. Accounting Officer's interest in contracts

None.

5. Accounting policies

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Mr. M January	RSA

7. Non-compliance with applicable legislation

There were some non compliance to the MFMA which resulted in irregular expenditure as disclosed in note ....

The annual financial statements set out on page 6, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed on its behalf by:

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Accounting Officer
Mr. M January

Statement of Financial Position as at 30 Jun 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Inventories	3	5,342,410	5,696,401
Cash and cash equivalents	4	4,431,977	11,888,475
Receivables from exchange transactions - Consumer debtors	5	12,886,270	14,352,037
Receivables from exchange transactions - Other debtors	6&8	1,934,766	1,004,042
Receivables from non-exchange transactions	7&8	14,842,521	14,260,441
VAT receivable	9	534,991	1,296,845
		39,972,935	**48,498,241**
Non-Current Assets			
Investment property	10	51,845,373	51,332,060
Property, plant and equipment	11	318,925,597	305,800,917
Intangible assets	12	191,254	248,794
Heritage assets	13	1,151,058	1,151,058
		372,113,282	**358,532,829**
Total Assets		**412,086,217**	**407,031,070**
Liabilities			
Current Liabilities			
Payables from exchange transactions	17	30,532,868	26,806,723
Consumer deposits	18	1,524,162	1,503,751
Employee benefit obligation	15	131,457	248,673
Unspent conditional grants and receipts	14	3,794,752	7,257,851
		35,983,239	**35,816,998**
Non-Current Liabilities			
Employee benefit obligation	15	1,198,826	1,169,205
Provisions	16	6,989,140	8,917,126
		8,187,966	**10,086,331**
Total Liabilities		**44,171,205**	**45,903,329**
Net Assets		**367,915,012**	**361,127,741**
Accumulated surplus		367,915,012	361,127,741

* See Note 43

Kgatelopele Local Municipality
(Registration number NC086)
Annual Financial Statements for the year ended 30 Jun 2020

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	20	38,447,468	38,575,064
Rental of facilities and equipment		120,031	96,566
Agency services		35,256	-
Licences and permits	22	494,397	506,045
Other income	23	270,159	777,265
Interest received - investment	24	3,977,925	1,787,137
Total revenue from exchange transactions		**43,345,236**	**41,742,077**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	14,275,967	11,776,014
Transfer revenue			
Government grants & subsidies	26	51,173,529	67,329,941
Public contributions and donations	27	5,084,522	3,458,585
Fines, Penalties and Forfeits	21	75,064	15,272
Total revenue from non-exchange transactions		**70,609,082**	**82,579,812**
Total revenue	19	**113,954,318**	**124,321,889**
Expenditure			
Employee related costs	28	(33,795,017)	(31,414,179)
Remuneration of councillors	29	(2,702,523)	(2,567,596)
Depreciation and amortisation	30	(15,750,648)	(19,488,199)
Finance costs	31	(114,095)	(734,084)
Bad debts written off	32	(6,413,733)	(4,421,091)
Bulk purchases	33	(21,272,132)	(17,327,789)
Contracted services	34	(14,668,846)	(11,528,055)
General Expenses	35	(8,900,430)	(10,621,691)
Total expenditure		**(103,617,424)**	**(98,102,684)**
Operating surplus	38	**10,336,894**	**26,219,205**
Loss on disposal of assets and liabilities		(1,595,839)	(948,550)
Fair value adjustments	36	513,313	476,158
Actuarial gains/losses	15	126,754	-
Impairment loss		-	(37,216,473)
		(955,772)	**(37,688,865)**
Surplus (deficit) for the year		**9,381,122**	**(11,469,660)**

* See Note 43

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 Jul 2018	**357,725,697**	**357,725,697**
Changes in net assets		
VAT Receivables correction	(8,060,128)	(8,060,128)
Rates Opening balance from 2017/18 did not roll forward into the 2018/19 financial year TB	21,172,449	21,172,449
Prior period asjustment	65,209	65,209
Correction of prior year opening balance	(1,525,496)	(1,525,496)
Reversal of Internal Billings IRO 2017/2018 - YEND332 & YEND008	3,042,805	3,042,805
Petty Cash	2,000	2,000
Correction of ommission of Assets	5,265,079	5,265,079
Prior year adjustments	(5,090,214)	(5,090,214)
Net income (losses) recognised directly in net assets	14,871,704	14,871,704
Surplus for the year	(11,469,660)	(11,469,660)
Total recognised income and expenses for the year	3,402,044	3,402,044
Total changes	3,402,044	3,402,044
Restated* Balance at 01 Jul 2019	**345,369,503**	**345,369,503**
Changes in net assets		
Surplus for the year	9,381,122	9,381,122
Convertible bond - net asset component	(6,477,400)	(6,477,400)
Reversal Prior Year Internal Billings	(2,149,515)	(2,149,515)
Immovable property corrections	(5,265,078)	(5,265,078)
Correction of prior year opening balance	(1,525,497)	(1,525,497)
Reversal of Internal Billings IRO 2017/2018 - YEND332 & YEND008	3,042,804	3,042,804
Rates Opening balance from 2017/18 did not roll forward into the 2018/19 financial year TB	21,172,449	21,172,449
Derecognition of an abondened project	(1,156,895)	(1,156,895)
Prior period adjustments	(177,393)	(177,393)
Prior period adjustments	5,265,079	5,265,079
Reversal of Internal Billings - YEND331	435,833	435,833
Total changes	22,545,509	22,545,509
Balance at 30 Jun 2020	**367,915,012**	**367,915,012**

Note(s)

* See Note 43

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		38,447,468	38,575,064
Grants		43,693,877	53,144,757
Interest income		3,977,925	1,787,137
		86,119,270	93,506,958
Payments			
Employee costs		(34,332,628)	(3,844,444)
Suppliers		(43,096,840)	(46,765,973)
Finance costs		(114,095)	(734,084)
Other cash item		3,298,464	1,475,090
		(74,245,099)	(49,869,411)
Net cash flows from operating activities	52	**11,874,171**	**43,637,547**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(29,975,917)	(38,478,705)
Proceeds from sale of property, plant and equipment	11	1,584,673	658,567
Purchase of investment property	10	-	(3,314,456)
Purchase of other intangible assets	12	(24,663)	(41,382)
Other cash item		9,085,238	-
Net cash flows from investing activities		**(19,330,669)**	**(41,175,976)**
Cash flows from financing activities			
Finance lease payments		-	(2,497)
Net increase/(decrease) in cash and cash equivalents		**(7,456,498)**	**2,459,074**
Cash and cash equivalents at the beginning of the year		11,888,475	9,429,401
Cash and cash equivalents at the end of the year	4	**4,431,977**	**11,888,475**

The accounting policies on pages 13 to 48 and the notes on pages 49 to 88 form an integral part of the annual financial statements.

* See Note 43

Kgatelopele Local Municipality
(Registration number NC086)
Annual Financial Statements for the year ended 30 Jun 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	51,179,099	(3,299,497)	**47,879,602**	38,447,468	**(9,432,134)**	
Rental of facilities and equipment	295,497	-	**295,497**	120,031	**(175,466)**	
Agency services	388,800	-	**388,800**	35,256	**(353,544)**	
Licences and permits	-	-	**-**	494,397	**494,397**	
Other income	8,665,467	(2,122,230)	**6,543,237**	270,159	**(6,273,078)**	
Interest received - investment	75,052	2,557,100	**2,632,152**	3,977,925	**1,345,773**	
Total revenue from exchange transactions	**60,603,915**	**(2,864,627)**	**57,739,288**	**43,345,236**	**(14,394,052)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	19,929,422	-	**19,929,422**	14,275,967	**(5,653,455)**	
Transfer revenue						
Government grants & subsidies	37,148,000	17,850,967	**54,998,967**	51,173,529	**(3,825,438)**	
Public contributions and donations	-	-	**-**	5,084,522	**5,084,522**	
Fines, Penalties and Forfeits	632,798	-	**632,798**	75,064	**(557,734)**	
Total revenue from non-exchange transactions	**57,710,220**	**17,850,967**	**75,561,187**	**70,609,082**	**(4,952,105)**	
Total revenue	**118,314,135**	**14,986,340**	**133,300,475**	**113,954,318**	**(19,346,157)**	
Expenditure						
Personnel	(37,619,730)	2,090,915	**(35,528,815)**	(33,795,017)	**1,733,798**	
Remuneration of councillors	(2,601,839)	(100,702)	**(2,702,541)**	(2,702,523)	**18**	
Depreciation and amortisation	(11,096,149)	-	**(11,096,149)**	(15,750,648)	**(4,654,499)**	
Finance costs	(812,003)	679,013	**(132,990)**	(114,095)	**18,895**	
Debt Impairment	(5,831,544)	-	**(5,831,544)**	(6,413,733)	**(582,189)**	
Bulk purchases	(26,648,605)	-	**(26,648,605)**	(21,272,132)	**5,376,473**	
Contracted Services	(12,780,051)	-	**(12,780,051)**	(14,668,846)	**(1,888,795)**	
General Expenses	(18,099,869)	-	**(18,099,869)**	(8,900,430)	**9,199,439**	
Total expenditure	**(115,489,790)**	**2,669,226**	**(112,820,564)**	**(103,617,424)**	**9,203,140**	
Operating surplus	**2,824,345**	**17,655,566**	**20,479,911**	**10,336,894**	**(10,143,017)**	
Loss on disposal of assets and liabilities	-	-	**-**	(1,595,839)	**(1,595,839)**	
Fair value adjustments	60,409	-	**60,409**	513,313	**452,904**	
Actuarial gains/losses	-	-	**-**	126,754	**126,754**	
	60,409	**-**	**60,409**	**(955,772)**	**(1,016,181)**	
Surplus before taxation	**2,884,754**	**-**	**2,884,754**	**9,381,122**	**6,496,368**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**2,884,754**	**-**	**2,884,754**	**9,381,122**	**6,496,368**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

Reconciliation

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of investment property is determined on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors includingincluding production estimates, supply demand, together with economic factors such as as exchange rates, inflation rates and interest rates.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Provisions are measured using management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to the present value where the effect is material.

Useful lives and residual values

The municipality's management determines the estimated useful lives and related depreciation charges for assets as noted in accounting policy 1.5 - Property, plant and equipment. These estimates are based on industry norms.

Management will increase the depreciation charge prospectively where useful lives are less than previously estimated useful lives Management will decrease the depreciation charge prospectively where useful lives are more than previously estimated useful lives.

Where changes are made to the estimated residual lives, management also makes these changes prospectively.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost or income include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Accounting Policies

1.5 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

Although unlikely, if the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Derecognition

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

- Housing to employees in the service of the municipality

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note).

1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Accounting Policies

1.6 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	10 - 100 years
Plant and machinery	Straight line	5 - 15 years
Furniture and fixtures	Straight line	7 -10 years
Motor vehicles	Straight line	5 - 20 years
Office equipment	Straight line	3 - 5 years
IT equipment	Straight line	3 - 5 years
Solid waste infrastructure	Straight line	10 - 50 years
Sport facilities	Straight line	15 - 30 years
Stormwater infrastructure	Straight line	20 - 50 years
Wastewater network	Straight line	20 - 100 years
Water network	Straight line	15 - 80 years
Service concession assets [State class]	Straight line	Indefinite
Housing	Straight line	15 - 100 years
Road infrastructure	Straight line	7 - 100 years

Accounting Policies

1.6 Property, plant and equipment (continued)

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.7 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Accounting Policies

1.7 Intangible assets (continued)

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Licenses and franchises	Straight line	1 year
Computer software, internally generated	Straight line	3 years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Accounting Policies

1.8 Heritage assets (continued)

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Accounting Policies

1.8 Heritage assets (continued)

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an municipality on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an municipality's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
  - receive cash or another financial asset from another municipality; or
  - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

Accounting Policies

1.9 Financial instruments (continued)

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an municipality after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an municipality's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an municipality.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;

1.9 Financial instruments (continued)

- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Consumer receivables	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Comsumer deposits	Financial liability measured at amortised cost
Finance lease obligations	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Accounting Policies

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipality cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The muncipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

Accounting Policies

1.9 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Accounting Policies

1.9 Financial instruments (continued)

Derecognition

Financial assets

The muncipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Accounting Policies

1.9 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the municipality directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municiplity does not offset the transferred asset and the associated liability.

1.10 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

1.10 Statutory receivables (continued)

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

Accounting Policies

1.10 Statutory receivables (continued)

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognise the receivable; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

1.12 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Accounting Policies

1.12 Inventories (continued)

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.13 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

[Specify judgements made]

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.14 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Accounting Policies

1.14 Impairment of non-cash-generating assets (continued)

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Accounting Policies

1.14 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.14 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.15 Employee benefits

Employee benefits are all forms of consideration given by an municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reportinmunicipalityg municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.15 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.15 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.16 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Accounting Policies

1.16 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Accounting Policies

1.16 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.13 and 1.14.

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.17 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.18 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Accounting Policies

1.18 Revenue from exchange transactions (continued)

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Accounting Policies

1.19 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.20 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.21 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.22 Accounting by principals and agents

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether a municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Accounting Policies

1.22 Accounting by principals and agents (continued)

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:
- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.23 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.24 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.25 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.26 Irregular expenditure

Irregular expenditure as defined in section 1 of the Municipal Finance Management Act, (Act No. 56 of 2003) is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Detailed disclosures are made to the annual financial statements as required by the Municipal Finance Management Act, (Act No. 56 of 2003).

1.27 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2018 to 30/06/2019.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.28 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Accounting Policies

1.28 Related parties (continued)

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.29 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Notes to the Annual Financial Statements

Figures in Rand 2020 2019

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme

The objective of this guideline: Entities in the public sector are frequently involved in the construction of houses as part of government's housing policy, implemented through the national housing programme, which is aimed at developing sustainable human settlements. The Housing Act, Act No. 107 of 1997 provides information about the housing programmes that fall within the scope of the national housing programme. Concerns were raised by preparers about the inconsistent accounting applied to housing arrangements undertaken by entities under the national housing programme. Different accounting may be appropriate where there are differences between the terms and conditions of arrangements concluded by entities. However, under housing arrangements that are undertaken in terms of the national housing programme, there are common features and issues that need to be considered. As a result, the Board agreed to develop high-level guidance for arrangements undertaken in terms of the national housing programme.

It covers: Background to arrangements undertaken in terms of the national housing programme, Transactions that affect the accounting of housing arrangements, Consider whether the municipality undertakes transactions with third parties on behalf of another party, Accounting by municipalities appointed as project manager, Disclosure requirements, Accounting by municipalities appointed as project developer, Accounting for the accreditation fee, commission, administration or transaction fee received, Land and infrastructure, Conclusion and Application of this Guideline to existing arrangements.

The effective date of the guideline is for years beginning on or after 01 Apr 2019.

The municipality has adopted the guideline for the first time in the 2020/2019 annual financial statements.

The impact of the guideline is not material.

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 Apr 2019.

The municipality has adopted the interpretation for the first time in the 2020/2020 annual financial statements.

The impact of the interpretation is not material.

IGRAP 19: Liabilities to Pay Levies

This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:

- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation;
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;
- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and
- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality has adopted the interpretation for the first time when the Minister sets the effective date for the interpretation.

The impact of the interpretation is not material.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality has adopted the standard for the first time when the Minister sets the effective date for the standard.

The impact of the standard is not material.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 Apr 2019.

The municipality has adopted the standard for the first time in the 2020/2020 annual financial statements.

The impact of the standard is not material.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality has adopted the standard for the first time when the Minister sets the effective date for the standard.

The impact of the standard is not material.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:
- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 Apr 2019.

The municipality has adopted the standard for the first time in the 2020/2020 annual financial statements.

The impact of the standard is not material.

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 Apr 2019.

The municipality has adopted the standard for the first time in the 2020/2020 annual financial statements.

The impact of the amendment is not material.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 Jul 2020 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

• GRAP 104 (amended): Financial Instruments	01 Apr 2099	Unlikely there will be a material impact
• Directive 14: The application of Standards of GRAP by Public Entities that apply IFRS® Standards	01 Apr 2021	Unlikely there will be a material impact
• Guideline: Guideline on Accounting for Landfill Sites	01 Apr 2020	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 Apr 2099	Unlikely there will be a material impact
• IGRAP 20: Accounting for Adjustments to Revenue	01 Apr 2020	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 Apr 2020	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	01 Apr 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 Apr 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 Apr 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 Apr 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 Apr 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 Apr 2020	Unlikely there will be a material impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 Apr 2020	Unlikely there will be a material impact
• Directive 13: Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training (CET) Colleges	01 Apr 2020	Unlikely there will be a material impact
• Directive 7 (revised): The Application of Deemed Cost	01 Apr 2020	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 Apr 2020	Unlikely there will be a material impact

3. Inventories

Land inventory	3,425,410	3,425,410
Consumable stores	1,032,799	1,001,881
Maintenance materials	855,369	907,717
Water for distribution	28,832	361,393
	5,342,410	**5,696,401**

Inventories recognised as an expense during the year	-	122,057

IIn the current year there were inventory items which were transferred to the at no value onto the financial system in the 2011/12 financial year. The inventory items are considered to be obselete as these items have no movement since they were taken onto the financial system. It is impractical to obtain the value of the stock write off of these stock items. The total number of items which are affected by the above are 26 inventory items.

Inventory pledged as security

INone of the inventory were pledged as security for any financial liability.

4. Cash and cash equivalents

Cash and cash equivalents consist of:

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

4. Cash and cash equivalents (continued)

	2020	2019
Cash on hand	2,000	2,000
Bank balances	266,022	785,590
Short-term deposits	4,163,955	11,100,885
	4,431,977	**11,888,475**

Cash and cash equivalents pledged as collateral

No cash and cash equivalent was pledged as security.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 Jun 2020	30 Jun 2019	30 Jun 2018	30 Jun 2020	30 Jun 2019	30 Jun 2018
First National Bank - MIG Call account 62021476313	3,831,977	1,719,620	11,002,066	3,831,995	1,726,159	11,002,066
First National Bank - INEP Call account 62289233547	-	1,369,570	199	-	1,369,570	199
First National Bank - Business Cheque Account 52003878794	688,174	790,650	3,040,877	261,022	785,448	2,060,664
First National Bank - MSIG Call account 62627395347	5,000	3,457,935	57	5,000	3,457,935	57
First National Bank - FMG Call account 62627396155	5,000	260,059	799,788	5,000	260,059	799,788
First National Bank - EPWP Call account 62627396915	5,000	4,775	53,760	5,024	4,775	53,760
First National Bank - Library Call account 62627394498	5,014	5,014	181,367	5,014	5,014	181,367
First National Bank - WSIG Call account 62714846500	517	4,277,732	22,111	516	4,277,232	22,111
First National Bank - Traffic account 62798890630	5,000	142	-	5,000	142	-
First National Bank - Disaster Management account 62822654530	311,805	-	-	311,805	-	-
Total	**4,857,487**	**11,885,497**	**15,100,225**	**4,430,376**	**11,886,334**	**14,120,012**

5. Receivables from exchange transactions - Consumer debtors

	2020	2019
Gross balances		
Electricity	2,770,836	5,063,105
Water	20,313,710	19,211,068
Sewerage	7,748,847	7,380,173
Refuse	9,495,223	9,618,086
Housing rental	3,979	14,189
Sundry receivables	1,823,162	1,770,728
VAT Receivable - Consumer debtors	5,679,213	6,243,388
	47,834,970	**49,300,737**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

5. Receivables from exchange transactions - Consumer debtors (continued)

Less: Allowance for impairment		
Electricity	(3,817,603)	(3,817,603)
Water	(18,331,755)	(18,331,755)
Sewerage	(7,850,038)	(7,850,038)
Refuse	(4,949,304)	(4,949,304)
	(34,948,700)	**(34,948,700)**

Net balance		
Electricity	(1,046,767)	1,245,502
Water	1,981,955	879,313
Sewerage	(101,191)	(469,865)
Refuse	4,545,919	4,668,782
VAT Receivable - Consumer debtors	5,679,213	6,243,388
Housing rental	3,979	14,189
Sundry Receivables	1,823,162	1,770,728
	12,886,270	**14,352,037**

Electricity		
Current (0 -30 days)	922,849	914,613
31 - 60 days	322,117	510,707
61 - 90 days	267,934	273,479
91 - 120 days	202,365	218,401
>121 days	3,738,701	5,071,209
Less: Allowance for impairment	-	(3,817,603)
	5,453,966	**3,170,806**

Water		
Current (0 -30 days)	661,920	852,767
31 - 60 days	599,387	698,527
61 - 90 days	765,530	692,065
91 - 120 days	639,807	573,996
>121 days	21,274,567	18,965,435
Less: Allowance for impairment	(18,331,755)	(18,331,755)
	5,609,456	**3,451,035**

Sewerage		
Current (0 -30 days)	322,325	372,838
31 - 60 days	257,333	275,716
61 - 90 days	259,849	243,317
91 - 120 days	256,319	225,295
>121 days	9,611,586	8,795,935
Less: Allowance for impairment	(7,850,038)	(7,850,038)
	2,857,374	**2,063,063**

Refuse		
Current (0 -30 days)	561,567	593,908
31 - 60 days	534,163	526,988
61 - 90 days	529,134	510,584
91 - 120 days	522,200	468,763
>121 days	9,240,177	8,801,380
Less: Allowance for impairment	(7,217,077)	(7,217,077)
	4,170,164	**3,684,546**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

5. Receivables from exchange transactions - Consumer debtors (continued)

Housing rental		
Current (0 -30 days)	1,790	1,790
31 - 60 days	1,790	1,790
61 - 90 days	1,790	1,790
91 - 120 days	1,867	1,790
>121 days	5,370	9,159
	12,607	**16,319**

Sundry receivables		
Current (0 -30 days)	10,104	9,955
31 - 60 days	5,570	3,319
61 - 90 days	5,350	2,360
91 - 120 days	5,191	2,110
>121 days	623,912	594,949
	650,127	**612,693**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(34,948,700)	(23,555,208)
Contributions to allowance	-	(11,393,492)
	(34,948,700)	**(34,948,700)**

Consumer debtors pledged as security

No consumer debtors were pledged as security.

Credit quality of consumer debtors

Consumer receivables from exchange transactions are only due after 30 days. Interest shall be paid on accounts which have not been paid within 30 days from the date on which the account became due, at a rate of 1% higher than the prime rate for the period.

6. Receivables from exchange transactions - Other debtors

Trade debtors	108,070	561
Employee costs in advance	823,215	-
Other receivables - recoveries from staff	29,290	29,290
Prepaid expenses	974,191	974,191
	1,934,766	**1,004,042**

7. Receivables from non-exchange transactions

Fines	1,749,534	1,822,028
Consumer debtors - Rates	13,092,987	12,438,413
	14,842,521	**14,260,441**

Receivables from non-exchange transactions pledged as security

None of the consumer receivables from non-exchange transactions have been pledged as security for any financial liabilities.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

7. Receivables from non-exchange transactions (continued)

Credit quality of receivables from non-exchange transactions

Consumer receivables from non exchange transactions are only due after 30 days. Interest shall be paid on accounts which have not been paid within 30 days from the date on which the account became due, at a rate of 1% higher than the prime rate for the period.

Reconciliation of provision for impairment of receivables from non-exchange transactions

8. Consumer debtors - Rates

	2020	2019
Gross balances		
Consumer debtors - Rates	15,360,760	14,706,186
Less: Allowance for impairment		
Consumer debtors - Rates	(2,267,773)	(2,267,773)
Net balance		
Consumer debtors - Rates	13,092,987	12,438,413
Rates		
Current (0 -30 days)	990,614	789,519
31 - 60 days	781,927	709,472
61 - 90 days	690,046	552,163
91 - 120 days	619,983	505,124
>121 days	11,729,385	12,041,665
Less: Allowance for impairment	(2,267,773)	(2,267,773)
	12,544,182	**12,330,170**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(2,267,773)	-
Contributions to allowance	-	(2,267,773)
	(2,267,773)	**(2,267,773)**

9. VAT receivable

	2020	2019
VAT	534,991	1,296,845

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

10. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	51,845,373	-	51,845,373	51,332,060	-	51,332,060

Reconciliation of investment property - 2020

	Opening balance	Fair value adjustments	Total
Investment property	51,332,060	513,313	51,845,373

Reconciliation of investment property - 2019

	Opening balance	Additions	Derecognition Cost	Fair value adjustments	Total
Investment property	47,615,031	3,314,456	(73,577)	476,150	51,332,060

Pledged as security

None the Investment property was pledged as security for any financial laibility.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the revaluations was 30 Jun 2020. Revaluations were performed by an independent valuer, who hold a recognised relevant professional qualification and have recent experience in the locations and categories of the investment property. The valuer was not connected to the municipality.

The investment properties were revalued with reference to comparable market data where available, as well as information from the deeds office.

Amounts recognised in surplus or deficit

	2020	2019
Rental revenue from Investment property	-	177,108
From Investment property that generated rental revenue		
Direct operating expenses (excluding repairs and maintenance)	-	139,457

Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	13,350,612	-	13,350,612	13,350,612	-	13,350,612
Buildings	15,802,897	(8,008,098)	7,794,799	13,700,178	(7,767,337)	5,932,841
Plant and machinery	2,091,939	(1,125,293)	966,646	1,098,889	(998,281)	100,608
Furniture and fixtures	1,775,591	(1,420,374)	355,217	1,748,838	(1,272,113)	476,725
IT equipment	1,743,651	(1,294,324)	449,327	1,868,652	(1,222,984)	645,668
Electrical Infrastructure	105,637,777	(60,648,069)	44,989,708	105,810,331	(56,910,592)	48,899,739
Community facilities	11,851,513	(9,977,709)	1,873,804	11,867,606	(9,514,271)	2,353,335
Motor vehicles	7,737,692	(4,388,351)	3,349,341	6,357,959	(3,252,710)	3,105,249
Roads Infrastructure	166,476,960	(92,295,181)	74,181,779	163,636,710	(89,366,261)	74,270,449
Solid Waste Infrastructure	6,351,873	(2,720,438)	3,631,435	7,654,345	(1,973,284)	5,681,061
Storm water Infrastructure	20,781,561	(7,539,246)	13,242,315	21,098,895	(7,122,741)	13,976,154
Wastewater network	109,353,782	(25,516,882)	83,836,900	48,105,224	(23,493,414)	24,611,810
Water supply infrastructure	76,867,717	(25,157,948)	51,709,769	72,722,025	(23,500,973)	49,221,052
Work in progress	19,193,945	-	19,193,945	63,175,614	-	63,175,614
Total	**559,017,510**	**(240,091,913)**	**318,925,597**	**532,195,878**	**(226,394,961)**	**305,800,917**

Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals / Derecognition	Transfers received	Transfers	Derecognition Accumulated Depreciation	Other changes, movements	Depreciation	Impairment loss	Impairment reversal	Tota
Land	13,350,612	-	-	-	-	-	-	-	-	-	13,35
Buildings	5,932,841	-	(14,966)	2,480,643	-	-	-	(570,597)	(33,122)	-	7,79
Community facilities	2,353,335	-	(8,720)	-	-	-	-	(304,775)	(166,036)	-	1,87
Electrical Infrastructure	48,899,739	-	(460,869)	288,310	-	216,411	-	(3,951,498)	(2,385)	-	44,98
Furniture and fixtures	476,725	40,976	-	-	-	-	-	(158,035)	(4,449)	-	35
IT equipment	645,668	102,104	(226,565)	-	-	172,162	-	(270,439)	-	26,397	44
Motor vehicles	3,105,249	1,379,731	-	-	-	-	-	(1,135,639)	-	-	3,34
Plant and machinery	100,608	1,012,234	(19,184)	-	-	17,928	-	(140,539)	(4,401)	-	96
Roads Infrastructure	74,270,449	2,842,126	(139)	-	-	-	-	(2,924,308)	(6,349)	-	74,18
Solid Waste Infrastructure	5,681,061	-	-	-	-	-	(1,302,472)	(747,154)	-	-	3,63
Storm water Infrastructure	13,976,154	-	(317,334)	-	-	232,321	-	(639,719)	(9,107)	-	13,24
Wastewater network	24,611,810	-	-	61,248,558	-	-	-	(2,000,309)	(23,159)	-	83,83
Water supply infrastructure	49,221,052	-	(2,132,735)	6,278,427	-	946,388	-	(2,572,194)	(31,169)	-	51,70
Work in progress	63,175,614	24,598,746	-	-	(67,423,519)	-	(1,156,896)	-	-	-	19,19
	305,800,917	**29,975,917**	**(3,180,512)**	**70,295,938**	**(67,423,519)**	**1,585,210**	**(2,459,368)**	**(15,415,206)**	**(280,177)**	**26,397**	**318,92**

Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals / Derecognition	Transfers received	WIP Transfers	Provision Adjustment	Derecognition Accumulated Depreciation	Other changes, movements	Depreciation	Impairment loss	Tota
Land	13,353,109	-	-	-	-	-	-	(2,497)	-	-	13,35
Buildings	6,371,913	-	(75,286)	-	134,536	-	52,377	-	(550,444)	(255)	5,93
Community facilities	2,675,224	-	(105,359)	-	-	-	86,450	-	(302,980)	-	2,35
Electrical Infrastructure	53,553,368	134,989	(1,030,027)	-	-	-	191,068	-	(3,949,659)	-	48,89
Furniture and fixtures	639,890	144,891	(12,689)	(242,426)	-	-	7,819	200,260	(261,020)	-	47
IT equipment	960,512	50,179	(941)	-	-	-	672	-	(364,040)	(714)	64
Motor vehicles	4,349,137	-	(284,719)	-	-	-	224,712	-	(1,183,881)	-	3,10
Plant and machinery	187,649	5,995	-	-	-	-	-	-	(93,036)	-	10
Road Infrastructure	81,662,955	-	-	-	-	-	-	-	(7,392,506)	-	74,27
Solid Waste Infrastructure	2,933,106	-	-	-	-	3,058,219	-	-	(310,264)	-	5,68
Storm Water Infrastructure	14,663,197	-	-	-	-	-	-	-	(687,043)	-	13,97
Waste Water Network	26,544,610	-	(9,471)	-	-	-	7,917	-	(1,931,246)	-	24,61
Water network	51,817,322	-	(88,625)	-	-	-	-	-	(2,483,014)	(24,631)	49,22
Work in progress	25,167,499	38,142,651	-	-	(134,536)	-	-	-	-	-	63,17
	284,879,491	**38,478,705**	**(1,607,117)**	**(242,426)**	**-**	**3,058,219**	**571,015**	**197,763**	**(19,509,133)**	**(25,600)**	**305,80**

Pledged as security

None of the property, plant and equipment has been pledged as security for any financial liability.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

11. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Total
Opening balance	63,175,614	63,175,444
Additions/capital expenditure	24,626,522	24,626,522
Other movements - abandoning of Project	(526,872)	(526,872)
Transferred to completed items	(66,831,509)	(66,831,509)
	20,443,755	**20,443,585**

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Total
Opening balance	25,167,499	25,167,499
Additions/capital expenditure	38,008,115	38,008,115
	63,175,614	**63,175,614**

Expenditure incurred to repair and maintain property, plant and equipment

	2020	2019
Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Contracted services	-	2,017,122

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand

12. Intangible assets

	2020			2019		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, internally generated	556,282	(365,028)	191,254	531,619	(282,825)	248,794

Reconciliation of intangible assets - 2020

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software, internally generated	248,794	24,663	(82,203)	191,254

Reconciliation of intangible assets - 2019

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software, internally generated	312,973	41,382	(105,561)	248,794

Pledged as security

None of the intangible asset has been pledged as security for any financial liability.

Intangible assets in the process of being constructed or developed

No intangible assets are in the process of being constructed or developed.

Notes to the Annual Financial Statements

Figures in Rand

13. Heritage assets

	2020			2019		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Art Collections, antiquities and exhibits	265,000	-	265,000	265,000	-	265,000
Historical buildings	886,058	-	886,058	886,058	-	886,058
Total	**1,151,058**	**-**	**1,151,058**	**1,151,058**	**-**	**1,151,058**

Reconciliation of heritage assets 2020

	Opening balance	**Total**
Art Collections, antiquities and exhibits	265,000	265,000
Historical buildings	886,058	886,058
	1,151,058	**1,151,058**

Reconciliation of heritage assets 2019

	Opening balance	**Total**
Art Collections, antiquities and exhibits	265,000	265,000
Historical buildings	886,058	886,058
	1,151,058	**1,151,058**

Pledged as security

None of the heritage assets were pledged as security for any financial liability.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

13. Heritage assets (continued)

Heritage assets in the process of being constructed or developed

No heritage assets are in the process of being constructed or developed.

Expenditure incurred to repair and maintain heritage assets

No expenditure was incurred to repair and maintain heritage assets.

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Intergrated Electrification Grant - INEP	-	1,369,570
Financial Management Grant - FMG	(157,478)	(157,478)
Municipal Infrastructure Grant - MIG	3,825,438	1,719,620
Housing Grant	66,792	66,792
Municipal Water Infrastructure Grant - MWIG	-	4,259,347
Disaster Management Grant	60,000	-
	3,794,752	**7,257,851**

Movement during the year

Balance at the beginning of the year	7,257,851	10,928,792
Additions during the year	49,080,000	63,536,398
Income recognition during the year	(51,173,529)	(67,207,339)
Amount surrendered to Treasury	(1,369,570)	-
	3,794,752	**7,257,851**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National / Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

15. Employee benefit obligations

Long service bonuses award

The Long Service Bonus plans are defined benefit plans. As at year end, 107 employees were eligible for Long Service Bonuses.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

15. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Opening Balance	(1,417,878)	(1,429,480)
Current service cost	(142,310)	(155,526)
Current interest cost	(106,363)	(109,518)
Expected benefit payments	209,514	133,646
Actuarial gain/(loss)	126,754	143,000
	(1,330,283)	**(1,417,878)**

Non-current liabilities	(1,198,826)	(1,169,205)
Current liabilities	(131,457)	(248,673)
	(1,330,283)	**(1,417,878)**

The municpality offers bonuses for every 5 years of completed services from 10 years to 45 years.

Long service accoumulated leave must be taken within one year of receiving such leave or may wholly or partially cashed. Employees in most cases choose to excercise the option to wholly convert theri accumulative leave bonus days into cash.

Net expense recognised in the statement of financial performance

Current service cost	142,310	155,526
Interest cost	106,363	109,518
Actuarial (gains) losses	(126,754)	(133,646)
Benefits paid	(209,514)	(143,000)
	(87,595)	**(11,602)**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

15. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.38 %	8.10 %
Net discount rates	3.90 %	2.58 %
Expected increase in salaries	4.31 %	5.38 %
CPI	3.31 %	4.38 %
Normal retirement age	65	65
Average retirement age	63	63

There are no assets set aside for long service bonus awards funding that qualify as plan assets in terms of the requirements of GRAP 25. As such the value ascribed to the fair value of plan assets is nil.

The accrued liability is a function of an additional year of accrued service, interest cost, and less the bonuses payable to staff attaining long service milestones.

The basis on which the discount rate has been determined is as follow:

At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2019 is 8.38% per annum, and the yield on inflation-linked bonds of a similar term was about 4.42% per annum. This implies an underlying expectation of inflation of 4.31% per annum ([1 + 8.38% - 0.50%] / [1 + 4.42%] - 1).

There is an assumption that salary inflation would exceed general inflation by 1.00% per annum, i.e. 4.31% per annum.

However, it is the relative levels of the discount rate and salary inflation to one another that is important, rather than the nominal values. It was thus assumed a net discount factor of 3.90% per annum ([1 + 8.38%] / [1 + 4.31%] - 1)

In addition to the normal salary inflation rate, promotional salary increases, which consistent with the prior year valuation, is detailed in the table below was assumed.

Promotional increase rate:

Age band 20 - 24	-	-	5 %	5 %
Age band 25 - 29	-	-	4 %	4 %
Age band 30 - 34	-	-	3 %	3 %
Age band 35 - 39	-	-	2 %	2 %
Age band 40 - 44	-	-	1 %	1 %
> 45	-	-	-	-
	-	**-**	**15**	**15**

Figures in Rand	2020	2019

15. Employee benefit obligations (continued)

Other assumptions

The valuation bases assume that the salary inflation rate (which manifests itself as the annual increase in employees' salaries which determine the bonuses payable) will be 3.90% less than the corresponding discount rate, in the long term. The effect of a one percent increase and decrease in the salary inflation rates is as follows:

	One percentage point increase	One percentage point decrease
Employer's accrued liability	1,436,387	1,257,863
Employer's current service cost	157,848	134,494
Employer's interest cost	115,336	97,022

The following are the balances for the defined benefit obligation:

	2020 R	2019 R	2018 R	2017 R	2016 R
Defined benefit obligation	1,330,283	1,429,480	1,417,878	1,301,000	-

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees.

Council contribute to the Government Employees Pension Fund, Municipal Council Pension Fund, IMATU Retirement Fund and SAMWU National Provident Fund which are defined contribution funds. The retirement benefit fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service costs.

The municipality is under no obligation to cover any unfunded benefits.

The total economic entity contribution to such schemes	-	-
The amount recognised as an expense for defined contribution plans is	-	-

Notes to the Annual Financial Statements

Figures in Rand 2020 2019

16. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions	Reversed during the year	Total
Environmental rehabilitation	5,762,759	(1,302,472)	-	4,460,287
Bonus Provision	1,113,871	48,828	-	1,162,699
Leave Provision	2,040,496	-	(674,342)	1,366,154
	8,917,126	**(1,253,644)**	**(674,342)**	**6,989,140**

Reconciliation of provisions - 2019

	Opening Balance	Additions	Reversed during the year	Total
Environmental rehabilitation	2,704,540	3,058,219	-	5,762,759
Bonus Provision	633,386	480,485	-	1,113,871
Leave Provision	2,583,332	-	(542,836)	2,040,496
	5,921,258	**3,538,704**	**(542,836)**	**8,917,126**

Environmental rehabilitation provision

The enviromental rehabilitation provision is in respect of the cost for the rehabilitation of the landfill site after its closure.

The closure of the enviromental rehabilitation site remains uncertain and have been provided for in accordance the Standards of GRAP, Provisions and contingencies.

As per the available data to the consulting engineers, the landfill site in Danielskuil is not licensed. The refuge disposal area is approximately 12 376m2.

Key Assumptions:

The remaining useful life at 2020 of the Danielskuil Landfill Site is expected to be 8 years and will be operational until 2027.

The rehabilitation cost has been escalated to account for the increase in construction cost at the time of closure and rehabilitation. Engineering and construction indices, drawn from SAFCEC and STATS SA, were used to determine the escalation rates. Current year improvements were also taken into account to determine the rehabilitation costs.

The discount rate used for the provision for the restoration liability was based on the yield of RSA government bonds for 5-10 years (KBP2002M), the provisions at 30 June 2020.

The main factors in the determination of the provision are the rehabilitation costs, expected remaining useful life of the site, the expected escalation rate and the discount rate to be used. The following key parameters were used in the calculation of the 2019 landfill provisions:`

- Site remaining life at June 2019 (RUL years) 8,00
- Discount Rate (Bond rate) 8,74
- Escalation Rate (SAFCEC) 14,58

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Bonus Provision

Bonus is paid to all muncipal staff excluding section 57 employees. The balance at year end respresent the portion of the bonus that have already vested for the current salary cycle.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

16. Provisions (continued)

Leave provision

Leave accrual to staff according to the collective agreement. Provision is made for the full cost of accrued leave at reporting date. Provision will be realised as employees is taking leave.

17. Payables from exchange transactions

Trade payables	34,191,819	23,327,768
Payments received in advanced - contract in process	1,370,708	1,157,562
Other payable	80,077	121,175
Accrued expense	11,339	11,339
Accrued audit fees	(6,417,233)	(6,417,233)
Unallocated deposits	695,165	266,629
Salary control account	600,993	8,339,483
	30,532,868	**26,806,723**

18. Consumer deposits

Electricity	1,523,497	1,503,001
Housing rental	665	750
	1,524,162	**1,503,751**

19. Revenue

Service charges	38,447,468	38,575,064
Rental of facilities and equipment	120,031	96,566
Agency services	35,256	-
Licences and permits	494,397	506,045
Other income	270,159	777,265
Interest received - investment	3,977,925	1,787,137
Property rates	14,275,967	11,776,014
Government grants & subsidies	51,173,529	67,329,941
Public contributions and donations	5,084,522	3,458,585
Fines, Penalties and Forfeits	75,064	15,272
	113,954,318	**124,321,889**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	38,447,468	38,575,064
Rental of facilities and equipment	120,031	96,566
Agency services	35,256	-
Licences and permits	494,397	506,045
Other income	270,159	777,265
Interest received - investment	3,977,925	1,787,137
	43,345,236	**41,742,077**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

19. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	14,275,967	11,776,014
Transfer revenue		
Government grants & subsidies	51,173,529	67,329,941
Public contributions and donations	5,084,522	3,458,585
Fines, Penalties and Forfeits	75,064	15,272
	70,609,082	**82,579,812**

20. Service charges

Sale of electricity	22,396,159	21,229,629
Sale of water	6,752,972	7,656,594
Solid waste	5,789,487	5,896,494
Sewerage and sanitation charges	3,543,105	3,792,347
Other service charges - Departmental Billings	(34,255)	-
	38,447,468	**38,575,064**

21. Fines, Penalties and Forfeits

Illegal Connections Fines	19,863	15,272
Municipal Traffic Fines	55,201	-
	75,064	**15,272**

22. Licences and permits (exchange)

Road and Transport	494,397	506,045

23. Other income

Administrative Handling Fees	187,662	38,689
Rezoning and consolidation fees	22,666	34,878
Clearance Fees	12,241	15,135
Other income 8	18,543	-
Photocopies and Faxes	5,361	2,357
Sale of goods	4,900	75,717
Staff Recoveries	125	119
Valuation services	1,998	12,388
Sundries	16,663	597,982
	270,159	**777,265**

24. Interest received

Interest on cash and cash equivalents	713,061	1,195,089
Interest charged on consumer receivables	3,264,864	592,048
	3,977,925	**1,787,137**

The amount included in Investment revenue arising from exchange transactions amounted to R -.

The amount included in Investment revenue arising from non-exchange transactions amounted to R -.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

25. Property rates

Rates received

	2020	2019
Residential	8,349,852	4,888,170
Commercial	4,939,861	4,628,613
Government	147,198	874,230
Small holdings and farms	839,056	1,385,001
	14,275,967	**11,776,014**

Valuations

	2020	2019
Residential	623,716,300	623,716,300
Commercial	1,282,347,859	1,282,347,859
Government	34,008,000	34,008,000
Municipal	64,244,100	64,244,100
	2,004,316,259	**2,004,316,259**

Valuations on land and buildings are performed every 4 years. The municipality is to implement the new valuation roll in the 2019/20 financial year. The last general valuation came into effect on the 1st July 2013 and the municipality received an extention from the responsible MEC. Interim valuations are to be processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions however this was not performed within the muncipality.

The new general valuation will be implemented on 01 July 2020.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

26. Government grants and subsidies

Operating grants		
Equitable share	22,388,000	20,469,000
Library Grant	655,000	655,000
Expanded Public Works Programme	1,055,000	-
Financial Management Grant	2,880,000	2,917,478
	26,978,000	**24,041,478**
Capital grants		
Intergrated Electrification Grant	2,000,000	1,330,430
Municipal Infrastructure Grant	17,936,182	36,717,380
Municipal Water Infrastructure Grant	4,259,347	5,240,653
	24,195,529	**43,288,463**
	51,173,529	**67,329,941**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	28,130,529	46,205,941
Unconditional grants received	23,043,000	21,124,000
	51,173,529	**67,329,941**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R - (2019: R -), which is funded from the grant.

Library grant

Current-year receipts	655,000	655,000
Conditions met - transferred to revenue	(655,000)	(655,000)
	-	-

Conditions still to be met - remain liabilities (see note 14).

The Library grant was allocated to improve and expand library services in the community.

Intergrated National Electrification Grant

Balance unspent at beginning of year	1,369,570	-
Current-year receipts	2,000,000	2,700,000
Conditions met - transferred to revenue	(2,000,000)	(1,330,430)
Amount surrendered to Treasury	(1,369,570)	-
	-	**1,369,570**

Conditions still to be met - remain liabilities (see note 14).

The Municipal Systems Infrastructure Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems.

Financial Management Grant

Figures in Rand	2020	2019

26. Government grants and subsidies (continued)

Balance unspent at beginning of year	(157,478)	388,999
Current-year receipts	2,880,000	2,415,000
Conditions met - transferred to revenue	(2,880,000)	(2,917,477)
Other	-	(44,000)
	(157,478)	**(157,478)**

Conditions still to be met - remain liabilities (see note 14).

The Financial Management Grant was allocated to promote and support municipal finance management reforms and assist municipalities with the implementation and governance processes as prescribed by the Municipal Finance Management Act (Act 56 of 2003).

Municipal Infrastructure Grant

Balance unspent at beginning of year	1,719,620	10,472,999
Current-year receipts	20,042,000	27,975,000
Conditions met - transferred to revenue	(17,936,182)	(36,717,379)
Amount surrendered to Treasury	-	(11,000)
	3,825,438	**1,719,620**

Conditions still to be met - remain liabilities (see note 14).

The Municipal Systems Infrastructure Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems.

Housing Grant

Balance unspent at beginning of year	66,792	66,792

Conditions still to be met - remain liabilities (see note 14).

Expanded Public Works Grant

Current-year receipts	1,055,000	-
Conditions met - transferred to revenue	(1,055,000)	-
	-	**-**

Conditions still to be met - remain liabilities (see note 14).

The Expanded Public Works Programme Grant was allocated to the municipality to assist in funding of the approved projects of the municipality as contained within the annual financial statements.

Municipal Water Infrastructure Grant

Balance unspent at beginning of year	4,259,347	-
Current-year receipts	-	9,500,000
Conditions met - transferred to revenue	(4,259,347)	(5,240,653)
	-	**4,259,347**

Conditions still to be met - remain liabilities (see note 14).

The Municipal Water Infrastructure Grant was allocated for the water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions to provide for new, rehabilitated and upgraded municipal infrastructure.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

26. Government grants and subsidies (continued)

Disaster Management Grant

Current-year receipts	60,000	-

Conditions still to be met - remain liabilities (see note 14).

The Disaster Management Grant objective is to respond to the immediately needs and expenditure after a disaster has occured in order to deal with its consequences.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 02 of 2018), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

27. Public contributions and donations

Private donations/assistance received	5,084,522	3,458,585

Public contributions and donations comprises of donations received from the mining companies and residents within the boundaries of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

28. Employee related costs

Basic	21,864,866	20,195,479
Bonus	1,798,558	1,443,696
Medical aid - company contributions	1,888,672	1,603,772
UIF	176,959	171,497
Leave pay provision charge	(674,342)	(62,352)
Leave pay	34,213	53,036
Standby Allowance	245,049	203,959
Cellular and Telephone Allowance	14,000	14,037
Overtime payments	1,527,912	1,401,786
Long-service awards	9,540	123,792
Travel allowance	84,256	84,256
Housing benefits and other allowances	51,476	73,218
Bargaining Council	13,094	11,558
Group Life Insurance	13,909	12,868
Pension Contributions	3,639,936	3,208,873
	30,688,098	**28,539,475**

Remuneration of municipal manager: M January

Annual Remuneration	671,273	506,954
Performance Bonuses	-	66,008
Scarcity allowance	74,200	74,027
Contributions to UIF, Medical and Pension Funds	229,716	148,995
Travel allowance	189,839	415,095
Re-imburse Travel and Subsistence	-	23,266
Skills Development Levy	11,256	11,827
	1,176,284	**1,246,172**

In addition to the above the Municipal Manager is provided with a fully furnished municipal housing which is fully furnitured. The Municipal Manager is responsible for the services and utilities of the property. Mr M January's term commenced from 1 March 2018.

Remuneration of chief finance officer: ON Louw

Annual Remuneration	500,632	474,655
Travel and other allowances	133,103	306,803
Scarcity allowance	57,054	54,703
Contributions to UIF, Medical and Pension Funds	185,269	9,933
Re-imburse Travel and Subsistence	-	5,796
Skills Development Levy	8,476	8,748
	884,534	**860,638**

Ms ON Louw's term commenced from 1 March 2018.

Remuneration of the technical manager: T Barnett

Annual Remuneration	530,858	574,022
Travel and other allowances	164,953	142,316
Scarcity allowance	57,054	50,144
Contributions to UIF, Medical and Pension Funds	123,174	13,512
Re-imburse Travel and Subsistence	9,784	17,131
Skills Development Levy	8,413	38,568
	894,236	**835,693**

Mr T Barnett's term commenced from 1 August 2018.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

29. Remuneration of councillors

Councillors	2,702,523	2,567,596

In-kind benefits

The Mayor is appointed in an executive capacity. A number of councillors are provided with an office and secreterial support at the cost of the muncipality.

The Mayor has use of a Council owned vehicle for official duties and is provided with a laptop to execute his duties. All Councillors are provided with a laptop and 3G modem for the execution of their duties.

Councillor remuneration is in line with the upper limits as Gazetted in the framework envisaged in section 219 of the Constitution.

The Mayor has a full time driver for executing official duties, at the cost of the municipality.

2020	Councillor allowance	Cellphone allowance	Subsistance and travel allowance	Backpay	Total
Mayor	517,320	40,800	6,750	18,497	583,367
Councillors	1,679,138	244,800	12,885	47,406	1,984,229
	2,196,458	**285,600**	**19,635**	**65,903**	**2,567,596**

2019	Councillor allowane	Cellphone allowance	Subsistance allowance	Backpay	Total
Mayor	517,320	40,800	6,750	18,497	583,367
Councillors	1,679,138	244,800	12,885	47,406	1,984,229
	2,196,458	**285,600**	**19,635**	**65,903**	**2,567,596**

30. Depreciation and amortisation

Property, plant and equipment	15,750,648	19,488,199

31. Finance costs

Trade and other payables	7,732	734,084
Other interest paid - Long Service Awards	106,363	-
	114,095	**734,084**

Capitalisation rates used during the period were -% on specific borrowings for capital projects and -% being the weighted average cost of funds borrowed generally by the municipality.

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R - (2019: R -).

32. Debt impairment

Bad debts written off	6,413,733	4,421,091

33. Bulk purchases

Electricity - Eskom	21,272,132	17,327,789

Notes to the Annual Financial Statements

Figures in Rand | 2020 | 2019

33. Bulk purchases (continued)

Electricity losses

	Number 2020		
Units purchased	(18,264,239)	(19,082,758)	-
Units sold	12,153,788	12,698,465	-
Total loss	**(6,110,451)**	**(6,384,293)**	**-**
Percentage Loss:			
Non-technical losses	- %	33 %	- %

Water losses

	Number 2020		
Units purchased	(1,003,985)	(8,072,037)	-
Units sold	813,078	9,147,126	-
Total	**(381,814)**	**1,075,089**	**-**
Percentage Loss:			
Technical losses	- %	10 %	- %
Non-technical losses	- %	9 %	- %
Total	**- %**	**19 %**	**- %**

34. Contracted services

	2020	2019
Outsourced Services		
Administrative and Support Staff	326,935	-
Catering Services	45,576	43,757
Personnel and Labour	1,495,262	217,912
Professional Staff	3,322,853	4,324,834
Refuse Removal	1,803,501	1,574,088
Researcher	470,543	216,971
Security Services	2,207,914	1,973,834
Traffic Fines Management	80,000	-
Consultants and Professional Services		
Infrastructure and Planning	179,559	518,219
Medical Services	17,528	10,918
Legal Cost	123,884	303,507
Contractors		
Maintenance of Buildings and Facilities	96,363	-
Maintenance of Vehicle, Plant and Machinery	2,180,089	1,370,816
Maintenance of Infrastructure	2,318,839	973,199
	14,668,846	**11,528,055**

Included in contracted services is repairs and maintance which was made on PPE and Investment property amounting to R............................. (2019: R 2 360 609).

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

35. General expenses

Advertising	84,829	94,152
Auditors remuneration	3,097,653	4,260,159
Bank charges	257,298	241,862
Computer expenses	695,106	548,833
Consumables	123,899	122,834
Insurance	529,188	1,152,901
Conferences and seminars	152,840	415,255
Fleet	61,054	-
Motor vehicle expenses	118,703	114,247
Fuel and oil	982,452	828,675
Postage and courier	9,913	2,377
Printing and stationery	532,126	447,802
Protective clothing	108,742	-
Subscriptions and membership fees	37,160	1,991
Telephone and fax	496,500	514,853
Travel - local	183,719	577,943
Water	-	61,459
Utilities	-	5,283
Uniforms	333,285	424,931
Ward committees	300,042	189,000
Skills Development levy	297,054	320,648
Learnerships and Internships	30,819	-
Water sample testing	397,469	372,776
Other expenses	70,579	(76,290)
	8,900,430	**10,621,691**

36. Fair value adjustments

Investment property (Fair value model)	513,313	476,158

37. Auditors' remuneration

Fees	3,097,653	4,260,159

38. Operating surplus (deficit)

Operating surplus (deficit) for the year is stated after accounting for the following:

Loss on sale of property, plant and equipment	(1,595,839)	(948,550)
Impairment on trade and other receivables	-	37,216,473
Depreciation on property, plant and equipment	15,750,648	19,488,199
Employee costs	36,497,540	33,981,775

39. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At amortised cost	**Total**
Receivables from exchange transactions	1,466,444	1,466,444
Consumer receivables	7,712,432	7,712,432
Cash and cash equivalents	11,886,334	11,886,334

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

39. Financial instruments disclosure (continued)

	21,065,210	**21,065,210**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	31,630,522	31,630,522
Consumer deposits	1,494,528	1,494,528
	33,125,050	**33,125,050**

2019

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	984,276	984,276
Consumer receivables	14,585,854	14,585,854
Cash and cash equivalents	14,243,410	14,243,410
	29,813,540	**29,813,540**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	34,951,574	34,951,574
Consumer deposits	1,494,614	1,494,614
	36,446,188	**36,446,188**

40. Commitments

Authorised capital expenditure

	2020	2019
Already contracted for but not provided for		
• Property, plant and equipment	175,773,355	169,945,406
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	-	11,418,182
Total capital commitments		
Already contracted for but not provided for	175,773,355	169,945,406
Not yet contracted for and authorised by accounting officer	-	11,418,182
	175,773,355	**181,363,588**

Authorised operational expenditure

	2020	2019
Already contracted for but not provided for		
• Already contracted for but not provided for	4,387,581	10,512,113
Total operational commitments		
Already contracted for but not provided for	4,387,581	10,512,113

Notes to the Annual Financial Statements

Figures in Rand 2020 2019

41. Contingencies

TThe municipalty has various claims against it in regards to services rendered by various suppliers and also damages the suppliers or individuals incurred.

Litigation

Claim for services rendered:

a) Litigation is in the process against the municipality relating to a service provider, Enviroserv Waste Management (Pty) Ltd for services rendered. The plaintiff is claiming an amount of R 1,420,465 plus interest at prescribed rate.

The matter has been defended and pleadings exchanged. Discovery and provision of further particulars are in the process of being finalised. The pre-trail wil be conducted in due course after which a trail date will be obtained. Matter will in all probability serve before the court no earlier than May 2021.

The financial exposure to the municpality regarding this matter is R 120,000 for cost and disbursements.

b) Litigation is in the process against the municipality relating to a service provider, Ducharme Consuting - Central (Pty) Ltd for services rendered. The plaintiff is claiming an amount of R 615, 012.82.

The matter will be withdrawn by Plaintiff and has been referred to arbitration to expedite finalisation.

The financial exposure to the municpality regarding this matter is R 140,000 for cost and disbursements.

Labour court matters:

a) Review of arbitration award relating to payment of bonuses. The plaintiff, NASCGWU obo Morebodi and 17 others, are claiming payment of annual bonuses of 18 employees plus interest at prescribed rate. The financial effect of the claim is uncertain.

The matter has been opposed but applicant still to file the record. Correspondance were forward to Registrar to archive the matter. It is doubtful that this matter will ever proceed.

The financial exposure to the municpality regarding this matter is R 40,000 for cost and disbursements. The municipality's lawyers and management is of the opion that the matter appears on face value to be devoid of any possible merit.

b) Review of arbitration award relating to unfair labour practice. The financial effect of the claim is uncertain.

The matter will be argued on 4 August 2020.

The financial exposure to the municpality regarding this matter is R 65,000 for cost and disbursements.

Claim for damages:

a) Litigation is in the process against the municipality by Lottering CA for damages to an amount of R 100,000 plus interest at prescribed rate.

Settlement negotiations are currently underway.

The financial exposure to the municpality regarding this matter is R 30,000 for cost and disbursements.

b) Litigation is in the process against the municipality by McCarthy GP for damages to an amount of R 100,000 plus interest at prescribed rate.

Settlement negotiations are currently underway.

Notes to the Annual Financial Statements

41. Contingencies (continued)

The financial exposure to the municpality regarding this matter is R 30,000 for cost and disbursements.

c) Litigation is in the process against the municipality by Beaton WD for damages to an amount of R 200,000 plus interest at prescribed rate.

Pleadings have been closed and a trail date will have to be arranged..

The financial exposure to the municpality regarding this matter is R 50,000 for cost and disbursements.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

42. Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Relationships	
Accounting Officer	Refer to accounting officer's report note
Mayor	R Losper
MPAC Chair person	NI Williams
Councillor	SG Edwards
Councillor	RC Lessing
Councillor	MG Ngesi
Councillor	N Prince
Councillor	EM Sulliman
Members of key management	Municipal Manager - MA January Chief Financial Officer - ON Louw Technical Services - TA Barnet

Details relating to remuneration are disclosed in note 29 for key management and note 30 for councillors.

Related party balances

Amount included in Trade receivables regarding related parties		
EM Sulliman	11,744	4,142
SG Edwards	439	455

Amounts included in trade receivables are in respect of services rendered and billings by the municipality for municipal services.

Provision for bad debts is in accordance with the municipality's policy and based on the repayment rate of the account holder.

The bad debt provision doesnot include any amounts for related parties.

Related parties commitments and expenditure:

The councillors, EM Sulliman disclosed that his son is in a partnership that was contracting with the municipality. Complete disclosure of this interest was made before the date of awarding the tender.

The municipality currently have the following contracts with the relative of the related party:

(a) As a subcontract for the extension of the waste water infrastructure project, and
(b) Management of the landfill site
(c) As a subcontract for theconstruction of the new Landfill site

Declarations of interest pertaining to both tenders have been submitted on the prescribed documentation prior to the award of the tender.

The said councillor has no direct or indirect financial interest relevant to the decisionmaking in the tender processes of the municipality and also has no interest relating to the businesses and the operations thereof nor the decisionmaking of the relevant entities as indicated above.

Related parties commitments		
Management of Landfill site	1,669,338	2,398,069
Extension of oxidation pond (Phase 1)	-	1,473,306
Extension of oxidation pond (Phase 2)	-	1,430,773
Establishment of Landfill site	11,012,594	-

Expenditure with related parties		
Management of Landfill site	2,074,026	1,863,691

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

42. Related parties (continued)

Extension of oxidation pond (Phase 1 & 2)	4,898,572	11,570,227
Establishment of Landfill site	2,937,681	-

Related party transactions

Sevices billed to related parties		
SG Edwards	6,348	6,071
EM Sulliman	42,558	60,666
Receipts from related parties		
SG Edwards	6,364	10,227
EM Sulliman	34,348	73,848

Purchases by related parties relate to the services rendered and billed to the related parties in accordance with the approved policies of the municipality.

Only related parties that have a property registered in their name reflects in this disclosure per GRAP 20.

43. Prior period errors

The following prior period errors were identified during the year under review.

43.1 Cash on hand

Petty cash balance at yearend was not recorded as Cash on hand in the prior year.

The correction of the error(s) results in adjustments as follows:

Statement of financial position		
Cash on hand	-	2,000
Accumulated Surplus or Deficit	-	(2,000)

43.2 Receivables from Non exchange transactions - Rates

Opening balance for Receivable from Non exchange transactions in respect of Rates from 2017/18 did not roll forward into the 2018/19 financial year trail balance.

The correction of the error(s) results in adjustments as follows:

Statement of financial position		
Receivables fromnon exchange transactions - Rates	-	21,172,449
Opening Accumulated Surplus or Deficit	-	(2,172,449)

43.2 VAT Receivables

Opening balance for VAT Receivable were adjusted with the amount with held by SARS in respect of liabilities of the municipality. The municipality recording were incorrect and the comparitive where corrected.

The correction of the error(s) results in adjustments as follows:

Statement of financial position		
VAT Receivables	-	(8,060,425)
Opening Accumulated Surplus or Deficit	-	8,060,425

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

43. Prior period errors (continued)

	-	1

Reclassification: VAT Receivables

VAT amount on Consumer debtors were classifed as part of VAT receivables from SARS.

Receivables from exchange transactions were understated with the VAT amount on consumer debtors and therefore had to be reclassified from VAT receivables to Receivables from exchange transactions.

The correction of the error(s) results in adjustments as follows:

Statement of financial position		
Receivables from exchange transactions - Consumer debtors	-	6,243,288
VAT Receivables	-	(6,243,288)

Reclassification - Rates

Receivables from non exchange transactions - Rates were classified as Receivables from exchange transaction - Sundry debtors.

The correction of the reclassification results in adjustments as follows:

Statement of financial position		
Receivables from exchange transactions - Sundry debtors	-	97,762
Receivables from non exchange transactions - Rates	-	(97,762)

Reclassification - Fines

Receivables from non exchange transactions - Rates were classified as Receivables from non exchange transaction - Fines.

The correction of the reclassification results in adjustments as follows:

Statement of financial position		
Receivables from non exchange transactions - Fines	-	43,192
Receivables from non exchange transactions - Rates	-	(43,192)

Reclassification - Rates Impairment

Impairment of Rates had been classified as Impairment of Refuse.

The correction of the reclassification results in adjustments as follows:

Statement of financial position		
Impairment of Refuse	-	2,267,773
Impairment of Rates	-	(2,267,773)

Reclassification

44. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

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Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

45. Going concern

We draw attention to the fact that at 30 Jun 2020, the municipality had an accumulated surplus (deficit) of R 367,915,012 and that the municipality's total assets exceed its liabilities by R 367,915,012.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality

Although certain going concern ratios, such as the cash coverage and creditors' days may appear unfavourable, the entity still has the power to levy rates and taxes and it will continue to receive funding from government as evident from the equitable share allocation in terms of the Division of Revenue Act, (Act 2 of 2018).

46. Events after the reporting date

Within the municipal space, the effects of COVID-19 is likely to be a current period event which will require ongoing evaluation to determine the extent to which developments after the reporting date, should be recognised in the current reporting period. Council has approved our revised budget for 2020/21 which includes various concessions in order to further mitigate the economic impact of the virus on our communities.

There were no events after reporting date which occured.

Figures in Rand	2020	2019

46. Events after the reporting date (continued)

There were no events after reporting date which occured.

47. Unauthorised expenditure

Opening balance as previously reported	108,102,187	40,947,940
Opening balance as restated	**108,102,187**	**40,947,940**
Add: Expenditure identified - current	-	67,154,247
Closing balance	**108,102,187**	**108,102,187**

Refer to Appendix G2 for calculation of unauthorised expenditure.

The over expenditure incurred by municipal departments during the year is attributable to the following categories:

Unauthorised expenditure: Budget overspending – per municipal department

Community and Public Services	-	9,816,183
Finance	-	57,338,064
	-	**67,154,247**

Disciplinary steps taken/criminal proceedings

No disciplinary steps of criminal proceedings were instigated.

48. Fruitless and wasteful expenditure

Opening balance as previously reported	5,195,618	4,345,108
Opening balance as restated	**5,195,618**	**4,345,108**
Add: Expenditure identified - current	853,036	795,287
Add: Expenditure identified - prior period	-	55,223
Closing balance	**6,048,654**	**5,195,618**

Fruitless and wasteful expenditure in respect of the current year was incurred due to outstanding account owed to Eskom. Despite the payment arrangement made with theservice provider, interest continues to be levied on overdue accounts.

49. Irregular expenditure

Opening balance	84,559,341	51,772,207
Opening balance as restated	**84,559,341**	**51,772,207**
Add: Irregular Expenditure - current	12,525,731	31,689,482
Add: Irregular Expenditure - prior period	-	1,097,652
Less: Amount written off - current	(11,438,528)	-
Closing balance	**85,646,544**	**84,559,341**

Incidents/cases identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings	
Expenditure items identified were the supply chain process was not followed		12

50. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

51. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

52. Cash generated from operations

	2020	2019
Surplus (deficit)	9,381,122	(11,469,660)
Adjustments for:		
Depreciation and amortisation	15,750,648	19,488,199
Gain on sale of assets and liabilities	1,595,839	948,550
Fair value adjustments	(513,313)	(476,158)
Impairment deficit	-	37,216,473
Debt impairment	6,413,733	4,421,091
Movements in retirement benefit assets and liabilities	(87,595)	(11,602)
Movements in provisions	(1,927,986)	2,995,868
Prior year adjustments	21,032,734	33,448,356
Changes in working capital:		
Inventories	353,991	(203,718)
Receivables from exchange transactions - Other debtors	(35,640,267)	(37,236,239)
Consumer debtors	(4,947,966)	10,015,151
Other receivables from non-exchange transactions	(582,080)	2,853,167
Payables from exchange transactions	3,726,145	(19,372,036)
VAT	761,854	4,681,906
Unspent conditional grants and receipts	(3,463,099)	(3,670,939)
Consumer deposits	20,411	9,138
	11,874,171	**43,637,547**

53. Change in estimate

Property, plant and equipment

During the 2019/2020 financial year, physical verification of property plant and equipment was conducted. From this process it was determined that some assets' useful lives have to be restated either upwards or downwards as a result of the assets reaching the end of their initially estimated useful lives or their condition having worsened from previous assesments respectively. The effect of these changes on actual and expected depreciation is as follows:

Decrease in depreciation:

2020	-	R 488,076
2021	-	R 488,076
2022	-	R 488,076
Later	-	R 488,076

54. BBBEE Performance

Information on compliance with the B-BBEE Act is included in the annual report under the section titled B-BBEE Compliance Performance Information.